

U.S. trade official gets first-hand look at B.C. timber pricing system

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The Bush administration's top international trade official peers intently through the window of a low-flying helicopter as it skims over hectares of log booms tethered at the tidewater sawmills that dot Vancouver Island's east coast.

Grant Aldonas, undersecretary responsible for international trade in the U.S. department of commerce, is on a day-long field trip to get a first-hand look at British Columbia's new market-based timber pricing system.

He is in B.C. to find out if it meets the U.S. government's benchmarks for free trade in lumber. If the U.S. accepts B.C.'s market reforms, then an interim agreement — with clear exit ramps to free trade — could end the dispute permanently for this province, if not

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Grant Aldonas of the U.S. commerce department talks with Henry Sirkia of Hayes Forest Services Limited during a tour of logging operations in B.C.

U.S. looking for changes

From HI

the rest of Canada.

And as the copter beats its way north from Victoria towards Port Alberni, Aldonas listens through his headphones to seatmate Bill Howard, head of the ministry of forests' revenue branch. Howard is the one man in B.C. who understands precisely how timber is priced in this province.

There is a lot at stake on this ride. B.C. forest companies, who account for half of all Canadian lumber exports to the U.S., have paid \$1 billion US in softwood duties because the price the government charges for timber on Crown lands is lower than prices for timber from federal lands across the line in Washington State.

Until now, there has been no functioning timber market in B.C. that the government — or U.S. trade officials — could use to gauge if Crown stumpage rates are, in fact, the true market price.

The absence of an open market for B.C. timber is at the root of the softwood dispute, leaving sawmillers here unprotected from allegations of subsidy from their counterparts in the U.S.

This trip is Howard's one chance to convince the United States that the B.C. coast now has a market-sensitive auction system in place. If he succeeds, there is a chance that the duties will, in time, be eliminated.

Officially, Aldonas came to B.C. to speak at a PricewaterhouseCoopers conference. But it quickly became apparent something else was afoot. Aldonas surprised delegates at the conference by saying B.C. and the U.S. are ready to begin negotiations on their own, without the rest of Canada. The move will "set the cat among the

pigeons," he said in a later interview.

Forests Minister Mike de Jong later also said B.C. is ready to negotiate separately.

Aldonas wants a negotiated settlement in part because it will eliminate "litigation risk." A crucial NAFTA softwood ruling is coming April 30. Canadian sawmillers expect it to go in Canada's favour but Americans have vowed the dispute will not end regardless of the ruling.

On Friday, federal International Trade spokesman Pierre Becharand confirmed that Ottawa is aware and supportive of this new B.C. initiative and is open to any approach "as long as it leads to a durable and long-term solution to the trade dispute."

In the air over Vancouver Island Thursday, talk of settlement is a long way off but Aldonas indicates he likes what he sees: signs of a dynamic market free of government interference. However, it's not always a pleasant transformation.

As the helicopter flies over Cowichan Bay, Howard notes that the package of forest policy changes the government has introduced — including one that no longer requires companies to operate job-creating sawmills in the regions where they harvest timber — has had some devastating impacts. He points up the valley towards Youbou, where TimberWest Forest Corp. recently closed its large-log sawmill, yet retained its timber rights. Victoria did not step in; it let market forces rule, putting hundreds of workers out of a job.

The point is not lost on Aldonas. The changes implemented in B.C. are producing effects. Later, on a cutblock of tall, old-growth cedar and hemlock soon to be harvested on the remote west coast of Vancouver Island, he

hears first-hand from Hayes Forest Services vice-president Rick Jeffery that the entire structure of the coastal industry is changing. Hayes, a Duncan-based contractor, has grown into a full-service forest company ready to take advantage of the changes.

Stan Coleman, unit manager of Weyerhaeuser's West Coast division, says the forest giant intends to get more in the business of buying logs on the open market instead of harvesting them. Companies like Hayes are filling the void. The province intends to take back 30 per cent of Weyerhaeuser's Tree Farm Licence 44 and redistribute the timber, most of which is likely to end up on the open market.

That opens up even more opportunities for companies like Hayes.

"We are constantly bidding on the timber sales. We look at the policy changes as an opportunity for us to create new relationships and to access more of the harvesting opportunities created by the take-backs," says Jeffery.

Aldonas later explains what he is looking for in B.C. He would like to see standing timber priced according to data gathered from sales. He does not expect B.C. to sell half its timber on the open market, a long-standing demand of the U.S. Coalition for Fair Lumber Imports.

It only has to be enough so that price fluctuations in the market create downstream impacts, the true test of an open market, he says.

He wants the system to be transparent. Buyers need to have as much information as possible as quickly as possible. Access to information and timeliness are crucial factors in ensuring a market responds accurately, he says.

Aldonas believes change in the forest industry is necessary in not only

B.C. but in his own country as well.

Despite his position, Aldonas does not like tariffs. Tariffs protect fragmented, high-cost domestic industries, he says. He has just returned from China where he was dealing with the issue of inexpensive textile shipments, which are harming U.S. producers despite high tariffs. While there, he also saw Russian logs streaming into China, where they are manufactured into lumber for domestic consumption.

He is convinced that in time, those cheap and plentiful Russian logs, milled in low-cost Chinese mills, will start showing up as two-by-fours in North America. And if not China, then Europe, New Zealand or Chile will take a bigger bite away the fractured North American lumber industry.

He has seen what happened to the fragmented, high-cost U.S. textile industry when confronted with low-cost Chinese imports. Unless the lumber industry in both countries can consolidate, rationalize old mills and modernize, he fears the same thing could happen to it.

"We need to get past this friction so the North American lumber industry can start thinking about what it needs to do to be healthy: to be globally competitive. How do we create a healthy industry to deal with what is coming?"

Aldonas wants removal of the duties to be the catalyst for change in the North American industry. Every indication of changes in the coastal industry as a result of the new market-based system registers with him.

"I am a big believer in the catalytic effect. It forces everyone to re-think the picture in front of them and start moving."

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